

Financing Health Care Reform in Rhode Island

What might it cost?

Who will pay?

January, 2008

Agenda

A. Background and context

- ❖ Rhode Island Health Care Spending
- ❖ Who are the uninsured?

B. What will it cost: Three key decisions

- ❖ Who are we covering?
- ❖ What are we buying?
- ❖ Who is paying?
- ❖ Sustainability

C. Questions and Discussion

Key Sources

Affordable Health Insurance Initiative

- ❖ One of five key elements of the Governor's Health Care Agenda
- ❖ Work funded by DHS under two primary grants (HRSA, SCl)
- ❖ Variety of participants

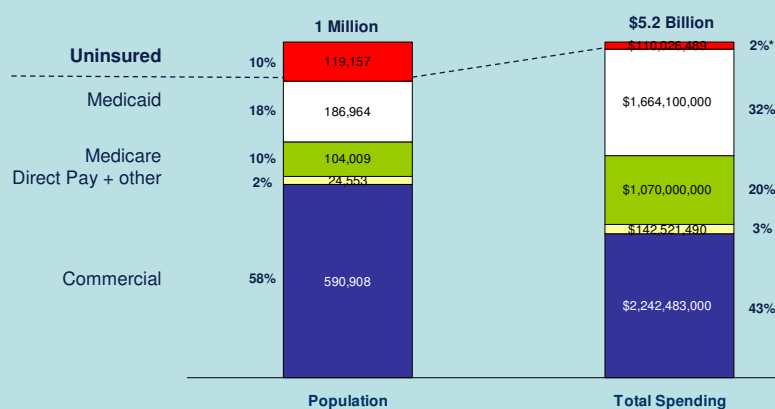
An Analysis of Rhode Island's Uninsured

- ❖ Study commissioned by the Office of the Health Insurance Commissioner (OHIC)
- ❖ Primary data sources: RI Health Interview Survey, Current Population Survey, Medical Expenditures Panel
- ❖ Data getting old

What's been done so far: Tip of the iceberg

Context: Estimated Rhode Island Health Care Spending

The uninsured account for 10% of Rhode Island's population



- ❖ *How many additional Rhode Islanders can we cover within our existing \$5.2 Billion industry?*
- ❖ *How much are we willing/able to change the existing system to address this problem?*

* Uninsured costs includes hospital DSH payments only
 Source: OHIC analysis. Conceptual model for discussion purposes only, built up from commercial premiums, CMS reports and OHIC internal reports.
 Commercial data is premium based. A more complete (and more complex) analysis would build these components up by provider within Rhode Island.

Background: Who are the uninsured

32 % of the uninsured (37,871)
Low income families currently eligible for Medicaid or RiteCare but not enrolled



*Expanded Medicaid outreach**

8 % of the uninsured (9,090)
Low income children and parents, below 300% FPL, but who do not qualify under current RiteCare eligibility rules



Expanded income guidelines for Rite Care

38 % of the uninsured (45,577)
Low income childless adults, below 300% FPL. RiteCare eligibility rules do not currently allow for coverage of childless adults, except for disabled adult under 100% FPL



A "new" population – no current program options

22 % of the uninsured (26,620)
Incomes above 300% FPL. Studies show that voluntary programs do not affect take-up



Mandates?

* Expanded Medicaid outreach would likely need to be coupled with changes to state rules, procedures, and enrollment processes which likely result in significant membership churn

Universal Coverage: What will it cost?

The cost of health insurance for all Rhode Islanders depends upon how we choose to answer (at least) three key questions:

❖ **Who are we covering?**

- Building on employer-based system? Or starting from scratch with a new funding model?
- All the uninsured? Or only those without access to employer coverage?

❖ **What are we buying?**

Unlimited comprehensive coverage with little/no cost sharing? Or something less?

❖ **Who is paying?**

Are we willing to accept Federal requirements in exchange for a generous funding match? How should we divide the cost amongst stakeholders?

Question #1: Who are we covering?

Employer contribution is a critical element of current health care financing:

- ❖ ~90% of Rhode Island employers with more than 10 employees offer insurance
- ❖ Two-thirds of Rhode Islanders <65 are covered by employer based health insurance
- ❖ Almost half (44%) of Rhode Islanders <65 who are <300% FPL are covered by private insurance



Key Assumption: Building upon existing employer based system

Question #1: Who are we covering?

Key Assumption: Building upon existing employer based system??

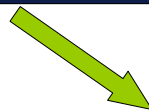
Yes



Everyone must have health insurance
Most Rhode Islanders continue to purchase insurance through their employer
Those who don't have access to employer coverage:
-- Purchase directly (if they can afford it)
-- Get subsidized coverage (if below affordability threshold)

**Funding Mechanism:
Filling the Gap**

No



Everyone must have health insurance
Employer based coverage replaced with employer tax to fund insurance for all Rhode Islanders
Could be individually purchased insurance or state-run program

**Funding Mechanism:
Covering all Rhode Islanders**

Question #1: Who are we covering?

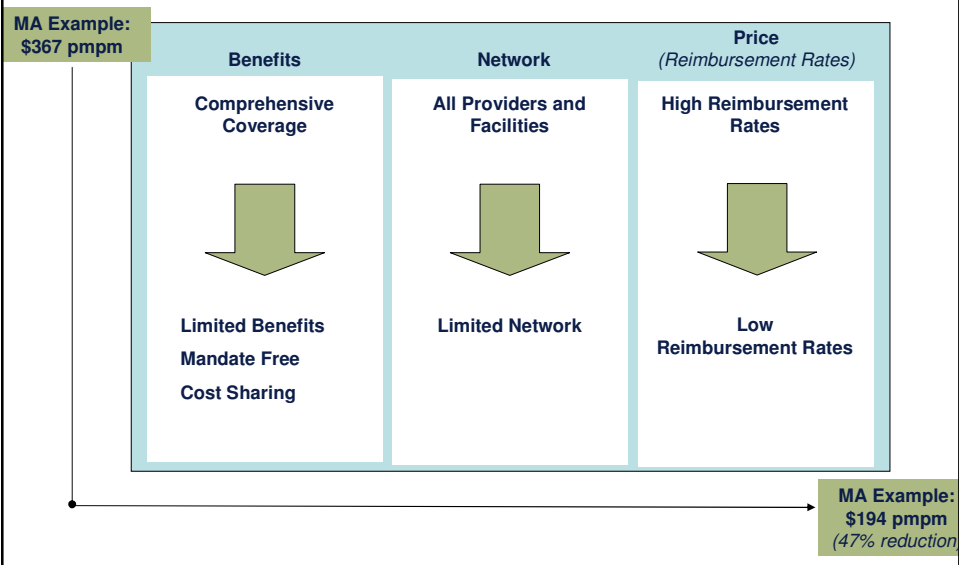


Practical financial constraints may require us to build on the existing employer based system, and to limit subsidized coverage to those without access to “affordable” employer coverage

*Source: J. Gruber, MIT economist estimates of crowd out and take-up

Question #2: What are we buying?

Three key elements: Benefits, network and price



Question #2: What are we buying?

Expanding coverage depends upon developing a more affordable product

| Income Level as % FPL | Total Uninsured | Annual Income (Single Adult) | "Affordable" Premium @10% of Income |
|--------------------------|-----------------|---------------------------------|--|
| <100% | 35,567 | \$10,210 | \$85/month |
| 100-299% | 56,970 | \$20,420 | \$170/month |
| 300-399% | 11,575 | \$30,630 | \$255/month |
| 400+ | 15,045 | \$40,840 | \$340/month |
| Total | 119,157 | | |

Note: The lowest cost direct pay product for individuals who do not pass medical underwriting is \$303 per month

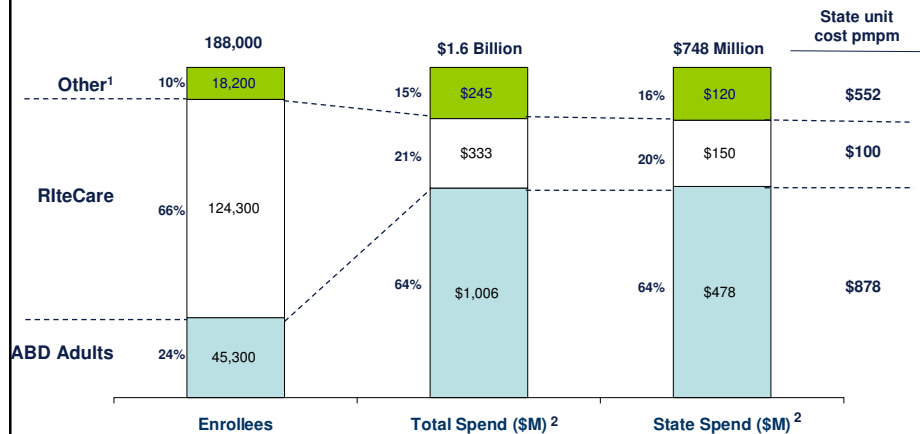
Summary of Estimated Costs

Financing limitations may define some of our choices

| | | Who Are We Covering? | |
|---------------------------|---------------------------|---|----------------------------------|
| | | Cover only those <300% FPL without access to commercial insurance | Cover all uninsured <300% FPL |
| What Are We Buying? | Basic coverage | \$160-180 Million | \$300-350 Million |
| | Comprehensive coverage | \$240 - 280 Million | \$500-600 Million |

Question #3: Who is paying –Medicaid match?

Should we build on RiteCare? RiteCare appears to be an efficient starting point



1. Other includes: CSHCN, EI, Alien, Foster Care, CCP

Question #3: Who is paying – Medicaid Match?

Federal funds are a critical element of reform financing.

| Uninsured Rhode Islanders <300% FPL | Estimated Total Cost to Cover | Cost to Cover with Federal Match |
|---|-------------------------------|----------------------------------|
| Income eligible not enrolled children and parents | \$67 Million | \$30 Million |
| Children + Parents up to 300% FPL | \$17 Million | \$8 Million |
| Childless adults < 300% FPL | \$77 Million | \$38 Million |
| Total Estimated Cost | \$160 Million | \$80 Million |

Key Challenges:

- ❖ Federal match on childless adults??
- ❖ Federal Medicaid plan design limitations
- ❖ Provider reimbursement levels

Note: Cost estimates shown here based on limited benefit package and commercial firewall

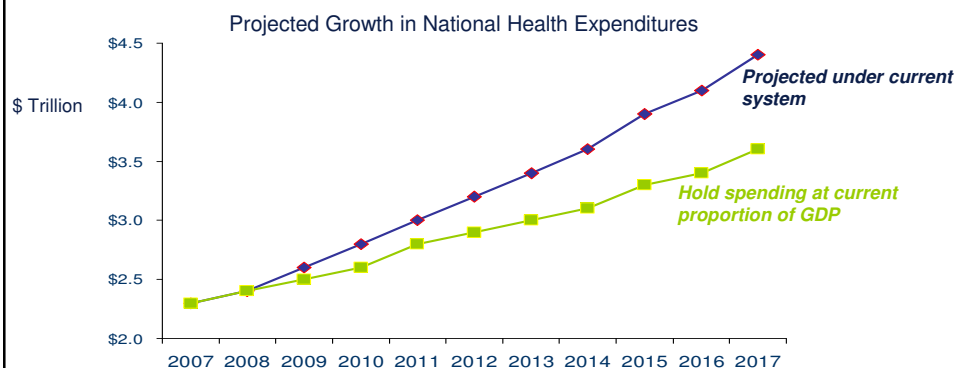
Question #3: Who is paying – Funding Mechanisms

Total State Funds: \$80-90 Million

| Possible Funding Mechanisms | Key Considerations | |
|--|---|--------------------|
| Employer mandate/penalties | Which employers How stiff a penalty ERISA | \$4-40 Million |
| Individual Mandate/penalties | Affordability guidelines How stiff a penalty Hardship exemption | \$1-8 Million |
| Insurer based assessment | ERISA, the self insured Administrative infrastructure Cost shift | up to \$24 Million |
| Provider/hospital based assessment -- Redirect portion of DSH -- New funding mechanism (UCC) | Difficult to redirect existing funds New mechanism – additional cost shift | up to \$35 Million |
| New state funds (outside of healthcare) -- Sin Tax (alcohol, junk food) | Targeted Sin Tax (alcohol, junk food) Competing priorities | ?? |

Sustainability: How to bend the curve?

The cost of coverage expansion will continue to increase unless we address the underlying cost of care in Rhode Island



How best to address the underlying cost of care in Rhode Island?

- More aggressive product and rate regulation?
- The state as a purchaser (a la state employees)?
- Individual purchasing to better align incentives and demand more cost-effective services?

Source: The Commonwealth Fund

Key Financing Challenges

1. Building on the employer based system?
2. Partnership with Federal Medicaid?
3. ERISA: employer requirements and capturing the self insured
4. Sustainability: How best to address the underlying cost of care in Rhode Island

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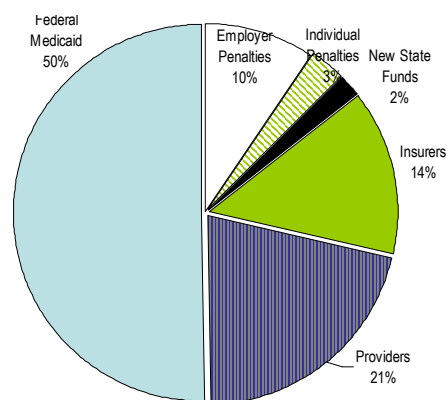
Backup

Backup: Who is paying – How to divide the pie?

Estimated Total Cost: \$160-180 Million
Total State Funds: \$80-90 Million

Key Assumptions:

Employer + Individual Mandate
Insurer based hospital bed tax
Redirect portion of DSH



Key Decisions:

- ❖ Is this an appropriate allocation of costs amongst stakeholders?
- ❖ What are the "best" mechanisms to achieve this allocation?

Backup: What are we buying?

Massachusetts Example

| | A Current Standard | B I Mandate | C + Cost Sharing | D + Visit Limits | E + Rx limits | F Restrict Network | G Mandate Free | H Reimbursement |
|----------------------------------|---|---|---|---|--|--|--|--|
| Individual Mandate | No, voluntary participation | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Hosp IP Deductible (Phys & MH) | \$0 | \$0 | \$250/stay | \$250/stay | \$250/stay | \$250/stay | \$250/stay | \$250/stay |
| Out-Of-Pocket Max Coinsurance | 2.5%/5% Low (10-20%) | 2.5%/5% Low (10-20%) | 5%/10% High (20-40%) | 5%/10% High (20-40%) | 5%/10% High (20-40%) | 5%/10% High (20-40%) | 5%/10% High (20-40%) | 5%/10% High (20-40%) |
| Phys Visit Limits (Phys & MH) | Unlimited | Unlimited | Unlimited | 15 | 15 | 15 | 15 | 15 |
| Rx | Full Benefit | Full Benefit | Full Benefit | Full Benefit | 3 script/mth 50% coins max gen subst | 3 script/mth 50% coins max gen subst | 3 script/mth 50% coins max gen subst | 3 script/mth 50% coins max gen subst |
| Network | Any willing | Any willing | Any willing | Any willing | Any willing | Restricted | Restricted | Restricted |
| Mandated Benefits | Federal/state/ infertility/maternity | Federal/state/ infertility/maternity | Federal/state/ infertility/maternity | Federal/state/ infertility/maternity | Federal/state/ infertility/maternity | Federal/state/ infertility/maternity | Federal/Maternity Only | Federal/Maternity Only |
| Reimbursement Levels | High | High | High | High | High | High | High | Medium |
| Product Cost | \$367 | \$351 | \$326 | \$323 | \$299 | \$279 | \$253 | \$225 |
| Incremental Savings | | -5% | -7% | -1% | -8% | -7% | -10% | -11% |
| Cumulative Savings | | -5% | -11% | -12% | -19% | -24% | -31% | -39% |

Source: Mercer consulting group model, based on commercial data, used to model minimum coverage requirements, and the implications for affordability standards, CommCare eligibility